

the guaranteed securities, for the construction, completion, equipment and betterment of the undertaking of the company. So far as the Grand Trunk Pacific Railway Company was concerned, the purpose of the legislation which authorized the guarantee of \$16,000,000 par value of its bonds, was to enable the company to complete the western division of the National Transcontinental Railway and to provide for the payment of certain interest upon underlying securities, and upon the guaranteed securities themselves for a period of three years from the date of completion of the western division. The trust deeds were prepared and executed in July, 1914.

Could Not Sell or Borrow.

Of the \$45,000,000 of Canadian Northern Railway Company's securities, £3,000,000 sterling were issued upon the London market in the week preceding the outbreak of the war, the net price realized being 91½, the issue price being 94. The instalments of payments under that loan were spread over a period as is usual in such cases. The Grand Trunk Pacific had not succeeded up to the date of the outbreak of the war in selling any of the guaranteed securities in question. When this legislation was enacted at the ordinary session of parliament in 1914, it was the view of both government and opposition that it was desirable in the public interest that the two systems should be completed. The outbreak of war closed all international markets to issues of every kind, even to those of the highest character. The result was that both companies found themselves in the position in which they could neither sell nor borrow upon the guaranteed securities.

So far as the Canadian Northern Railway Company was concerned, it found itself in the position that, by reason of the moratorium in the United Kingdom, it was unable to obtain payment of instalments as they matured under the issue which was made at the end of July, 1914.

When the first two advances were made to the two railway companies in question, the Grand Trunk Pacific Railway Company, after endeavoring to its utmost to obtain a loan in the United States, reported that it had been offered \$1,000,000 for a very short period at the rate of interest of 10 per cent., and that that was all it would be able to obtain.

Attitude of the Banks.

Under the provisions of the Finance Act, which was passed at the August session, 1914, banks were authorized to make advances upon securities approved by the treasury board. Those advances could be made by the government, under the authority of the legislation in question, in Dominion notes to any bank making application, upon securities which would be acceptable to the treasury board. The position, therefore, as far as those two railways were concerned, was that if any bank in Canada had made either of them a loan upon those guaranteed securities which they were entitled to pledge, and if such bank had asked for an advance in Dominion notes from the Dominion government under the Finance Act, the government, of course, would have made the advance, because no question could possibly arise as to the security. The security which the railway companies could offer the banks, and which the banks in turn could offer the government, would have been of a high character, because they were guaranteed as to principal and interest by the Dominion government.

In September, 1914, it was drawn to the attention of the government by both railway companies that their bankers were unwilling to make advances to them upon the security in question for the amounts which they required to complete their construction work, which was then under way, on the ground that the amounts required were large, and that, having regard to the financial condition which existed, the banks were unwilling to extend their liabilities even to the government, in case they had considered availing themselves of the provisions of the Finance Act, although the securities which they would receive upon the one hand, and which they would have been able in turn to offer the government, were guaranteed by the government itself, and were consequently of an indisputable character.

Both railway companies were requested by the government to seek to obtain loans upon the securities, but they were unable to do so.

In the circumstances two alternatives presented themselves. The first was to allow the railway companies to shut down construction work and disband their organiza-

tions. By reason of the fact that interest would continue to run against the companies, it would have meant also that the government's own security under these mortgages and under former legislation with regard to both systems would be diminished and the date of their completion indefinitely postponed. The disbandment of existing organizations would have meant increased expense in assembling them at a later date for the purpose of completing construction. The other alternative was that the government should make advances directly to the two companies upon their securities bearing its guarantee to ensure completion of their systems—that is, to effectuate the intention of parliament in giving the guarantee.

Government Made Advances.

There was no power in the government to make advances from consolidated revenue fund, upon the security of these guaranteed bonds and debenture stock. The only possible method that was open to the government to assist in the completion of this enterprise which the government regarded as desirable in the public interest was to make advances in Dominion notes. There was no other means to accomplish the end, namely, the completion of these lines, than the issue of Dominion notes by way of advances. As the banks were unwilling to intervene as borrowers from the government on behalf of the companies, it became necessary, if the situation was to be met, that the government should make the advances directly to the railway companies themselves upon the securities in question. Advances were accordingly made of Dominion notes from month to month upon the guaranteed securities at the rate of 80. The agreement of pledge taken from the railway companies was the same as that which has been taken from the banks in connection with advances made to them under the authority of the finance act of 1914.

Ten Millions for General Purposes.

As to the issue of \$10,000,000 which was made in November, 1914, by order-in-council for the general purposes of the government, the terms of the loan were the same as if the loan had been made to a bank, upon the same security, under the provisions of the finance act of 1914—interest 5 per cent. In the August (1914) session, under legislation which was then introduced and passed, the Dominion note issue was extended by \$15,000,000 without provision for a corresponding increase in the gold reserve held against it. The government hoped by this additional issue of \$15,000,000 and by such borrowing as they might effect during the remainder of the year, to be able to meet the liabilities of the Dominion as they matured. The government had an issue of treasury bills of £1,700,000, that is, of \$8,500,000, maturing in November, 1914. It was quite impossible, by reason of the critical financial conditions which existed in London, for the Dominion government to make a permanent issue in October or November, 1914.

Government Kept out of Market.

Apart from this, the London market was expecting the first great British war loan, and it was inadvisable that there should be any borrowing by any other government pending its successful flotation. The government, therefore, determined that it would keep off the London market, and would not even attempt to issue treasury bills. Treasury bills could have been issued, but in view of the circumstances, it was undesirable that that course should have been followed. In order to pay off the treasury bills of \$8,500,000 maturing in November, 1914, and in order to meet other maturing obligations, an additional issue of \$10,000,000 of Dominion notes was made for the general purposes of the Dominion under authority of order-in-council, but without the authority of the Dominion Notes Act as amended. The result of the government's action was that there were outstanding some \$26,000,000 of Dominion notes, \$10,000,000 of which were issued to the Canadian Northern Railway upon the security of \$12,500,000 of its guaranteed securities, \$6,000,000 to the Grand Trunk Pacific upon the security of \$7,500,000 of its securities, and \$10,000,000 for the general purposes of the Dominion.

The following table shows the course of the Dominion note circulation since a month before the outbreak of war. The amount of gold held for the redemption of the notes is also included:—